

Message Text

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AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 FEA-01 ABF-01

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FM AMEMBASSY OTTAWA

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POUCHED INFO ALL CONSULATES IN CANADA

E.O. 11652: N/A

TAGS: EDIN, CA

SUBJ: MAIN ESTIMATES ON EXPENDITURES FOR FY 76/77

BEGIN UNCLASSIFIED

1. TREASURY BOARD PRESIDENT JEAN CHRETIE TABLED IN PARLIAMENT ON FEBRUARY 18 MAIN ESTIMATES FOR FEDERAL GOVERNMENT EXPENDITURES FOR FY 76/77, ENDING MARCH 31, 1977. MAIN ESTIMATES ARE C\$38.4 BILLION FOR BUDGETARY ITEMS AND C\$1.1 BILLION FOR NON-BUDGETARY. INCLUDING RESERVE FOR SUPPLEMENTAL ESTIMATES AND OTHER NON-BUDGETARY ITEMS, TOTAL PROJECTED EXPENDITURES FOR FY 76/77 ESTIMATED AT C\$42.15 BILLION. MAIN ESTIMATES ARE 19.3 PERCENT HIGHER THAN REVISED ESTIMATES FOR FY 75/76 AND TOTAL ESTIMATED EXPENDITURES AT 16 PERCENT ABOVE PREVIOUS FISCAL YEAR.

2. CHRETIE JUSTIFIED INCREASE OF 16 PERCENT ON GROUNDS OF HIGHER TRANSFER PAYMENTS AND INFLATIONARY COSTS, AND HE
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CLAIMED ESTIMATES WERE IN KEEPING WITH GOC RESTRAINT POLICY.

HE MAINTAINED INCREASE COMPARED FAVORABLY WITH NUMBER OF RECENT ECONOMIC INDICATORS, CITING 1975 THIRD QUARTER RISES OF 18 PERCENT FOR BUSINESS NON-INDUSTRIAL CONSTRUCTION, 16 PERCENT FOR BUSINESS INVESTMENT AND 14.3 PERCENT FOR CONSUMER SPENDING. FOR FIRST TIME, CHRETIEN ANALYZED BUDGET IN TERMS OF "DIRECT" SPENDING BY FEDERAL GOVERNMENT AND OF "REDISTRIBUTION OF INCOME", AND HE CLAIMED THAT 70 PERCENT OF ESTIMATED EXPENDITURES WOULD BE REDISTRIBUTED TO "OTHER ECONOMIC AGENTS" RATHER THAN SPENT DIRECTLY BY GOVERNMENT.

3. MAIN ESTIMATES SUBMITTED IN FEBRUARY 1975 BY CHRETIEN AND THIS YEAR'S ESTIMATES NOT TOTALLY COMPARABLE SINCE FY 76/77 ESTIMATES NOW INCLUDE DISBURSEMENTS UNDER OLD AGE SECURITY ACT. THUS, FY 76/77 ESTIMATES ARE HIGHER BY \$4.5 BILLION THAN THEY WOULD HAVE BEEN IF ACCOUNTING PROCEDURE HAD NOT CHANGED.

4. OF C\$6.206 BILLION INCREASE IN MAIN ESTIMATES, LARGEST INCREASE IS IN TRANSFER PAYMENTS (UP 51.1 PERCENT), PERSONNEL COSTS (UP 18.8 PERCENT) AND PUBLIC DEBT (UP 17.3 PERCENT). BUDGETARY ESTIMATES (IN MILLION C\$) FOR TEN MAJOR MINISTRIES AND THEIR PERCENTAGE SHARE OF TOTAL AS FOLLOWS:

PERCENT

A. NATIONAL HEALTH AND WELFARE \$10,932 28.5

B. FINANCE 7,765 20.2

C. NATIONAL DEFENCE 3,371 8.8

D. MANPOWER AND IMMIGARATION 2,574 6.7

E. ENERGY, MINES AND
RESOURCES 1,653 4.3

F. SECRETARY OF STATE 1,429 3.7

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G. TRANSPORT 1,375 3.5

H. POST OFFICE 1,123 2.9

I. INDIAN AFFAIRS AND
NORTHER DEVELOPMENT 949 2.5

J. VETERANS AFFAIRS 771 2.0

K. ALL OTHERS 6,475 16.9

TOTAL 38,417

5. MINISTRIES RECEIVING SIGNIFICANT EXPENDITURE INCREASES WERE NATIONAL HEALTH AND WELFARE (UP C\$1,397 MILLION) FINANCE (UP C\$1,357 MILLION), MANPOWER AND IMMIGRATION (UP C\$911 MILLION), NATIONAL DEFENCE (UP C\$573 MILLION), TRANSPORT (UP C\$291 MILLION), AND THE POST OFFICE (UP C\$230 MILLION). ONE OF LARGEST INCREASES IN ESTIMATES OF GOVERNMENT EXPENDITURE IS FOR UNEMPLOYMENT INSURANCE COMMISSION, WHOSE GRANTS, CONTRIBUTIONS AND OTHER TRANSFER PAYMENTS ARE EXPECTED TO RISE BY OVER 90 PERCENT (FROM C\$875.4 MILLION IN FY 75/76 TO C\$1.7 BILLION).

6. IN CONTRAST TO LARGE INCREASES IN RECENT YEARS FOR CANADIAN INTERNATIONAL DEVELOPMENT AGENCY, FY 76/77 ESTIMATES UP ONLY ABOUT C\$8 MILLION TO C\$762.6 MILLION. HOWEVER, TREASURY BOARD ANALYSIS OF ESTIMATES CLAIMS TOTAL AID DISBURSEMENTS WILL RISE TO C\$1,00.4 MILLION, WHICH WILL INCLUDE GRANTS AND CONTRIBUTIONS VOTED IN PREVIOUS YEARS.

7. NATIONAL DEFENCE HAS RELATIVELY LARGE INCREASE (FROM C\$2.975 BILLION IN FY 75/76 TO C\$3.371 BILLION), BUT ONLY C\$30 MILLION IS FOR EXPENDITURES FOR LONGRANGE PATROL AIRCRAFT IN FY 76/77. TOTAL FOR CONSTRUCTION AND ACQUISITION OF MACHINERY AND EQUIPMENT TO RISE FROM C\$244 MILLION IN FY 75/76 TO C\$327.8 MILLION FOR FY 76/77.

8. RESTRICTIONS ON RATE OF EXPANSION OF PUBLIC SERVICE LIMITED OFFICIAL USE

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SET AT 1.5 PERCENT ANNUAL INCREASE. ACTUAL MAN-YEARS AUTHORIZED FOR FEDERAL DEPARTMENTS AND AGENCIES UNDER TREASURY BOARD CONTROL FOR FY 76/77 SET AT 321,191, UP ONLY 1.3 PERCENT OR 4,007 FROM 317,184 MAN-YEARS IN FY 75/76. ONLY AGENCIES RECEIVING SIGNIFICANT INCREASES IN PERSONNEL WERE POST OFFICE, STATISTICS CANADA, NATIONAL REVENUE, RCMP AND SOLICITOR GENERAL'S CORRECTIONAL SERVICES.

9. PREDICTABLE PARLIAMENTARY CRITICISM CAME FROM PCS WHO CLAIMED THAT GOVERNMENT WAS NOT EXERCISING SUFFICIENT RESTRAINT AND FROM NDPS WHO SAID GOVERNMENT WAS NOT DOING ENOUGH TO REDISTRIBUTE INCOME AND PROVIDE MORE JOBS. INITIAL NEWS STORIES HIGHLIGHTED 16 PERCENT INCREASE IN

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OVERALL EXPENDITURES, WHICH PAPERS POINTED OUT TO BE DOUBLE GOVERNMENT'S OWN ANTI-INFLATION GUIDELINES FOR OTHER SEGMENTS OF CANADIAN ECONOMY. GLOBE AND MAIL EDITORIALIZED THAT FEDERAL GOVERNMENT "FAILED TO DO WHAT IT HAS ASKED EVERYBODY ELSE TO DO" AND OTTAWA CITIZEN ECHOED THAT CRITICISM, BUT TORONTO STAR EDITORIAL MAINTAINED "FEDERAL ESTIMATES SUIT (THE) ECONOMY".

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10. COMMENT: UNLIKE PREVIOUS ESTIMATES TABLE WITHIN PAST FEW YEARS, CHRETIEN'S PROJECTED GOVERNMENT EXPENDITURES PROVIDED NO FUNDS FOR NEW PROJECTS. AS CHRETIEN POINTED OUT, MANY EXPECTED INCREASES WERE BEYOND ABILITY OF FEDERAL GOVERNMENT TO CONTROL (E.G., INCREASE FOR UNEMPLOYMENT COMMISSION ESTIMATES WHICH ARE REALLY REPLENISHMENT OF UNEMPLOYMENT FUNDS EXPENDED LAST YEAR).

11. ONE OF FEW CRITICS TO DEAL WITH CHRETIEN'S ANALYSIS OF ESTIMATES IN TERMS OF "TRANSFERS" NOT DIRECT GOVERN-
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MENT SPENDING WAS DON MCGILLIVRAY WRITING IN OTTAWA CITIZEN OF FEBRUARY 20. IN FAIRLY LIGHT-HEARTED BUT OBVIOUSLY CRITICAL WAY, MCGILLIVRAY POINTED TO "NEW GROUND" GOC HAS BROKEN IN "FINDING WHOLE NEW CATEGORIES OF TRANSFERS AMONG THE ITEMS ONCE CONSIDERED TO BE ORDINARY SPENDING". HE CITED C\$284 MILLION IN SUBSIDIES TO RAILWAY COMPANIES, C\$371 MILLION IN FARM SUBSIDIES, C\$416 MILLION TO CBC, AND C\$60 MILLION TO CANADA COUNCIL AS ABSURD EXAMPLES OF "BENEFIT TO CANADIAN HOUSEHOLDERS IN GENERAL" (AS TREASURY BOARD FACT SHEET EXPLAINS PAYMENTS OF THIS NATURE). BY SAME REASONING, MCGILLIVRAY SAID C\$3.4 BILLION ON NATIONAL DEFENSE SHOULD BE A "TRANSFER COMING TO US IN FORM OF FREEDOM FROM INVASION AND APPREHENDED CIVIL INSURRECTION", AND CIVIL SERVICE SALARIES ARE ALSO "TRANSFERRED BY THEM TO THE BUTCHER, THE BAKER AND THE CANDLESTICK MAKER".

12. OBVIOUSLY, CHRETIEN HOPED TO DIFFUSE CRITICISM OF INCREASED GOVERNMENT EXPENDITURE BY ARGUING THAT MOST FEDERAL SPENDING IS IN NATURE OF PAYMENTS "IN WHICH CANADIAN CITIZENS WILL BENEFIT". HOWEVER, TO INCLUDE PAYMENTS TO CROWN CORPORATIONS, PUBLIC DEBT PAYMENTS AND EXPENDITURES OF DEPARTMENT OF REGIONAL ECONOMIC EXPANSION (NOT TO MENTION CANADIAN BROADCASTING CORPORATION SUBSIDIES) UNDER GENERAL HEADING OF TRANSFER PAYMENTS IS TO GIVE ENTIRELY NEW DEFINITION OF FEDERAL EXPENDITURES. CHRETIEN'S "EXPLANATION" OF FEDERAL SPENDING FAILED TO PLACATE CRITICS WHO TOOK TRADITIONAL VIEW THAT RISE OF 16 (OR 19.3) PERCENT IS ESTIMATED EXPENDITURES WAS TOO HIGH WHETHER GOVERNMENT BOUGHT SUPPLIES OR PAID CANADIAN GOVERNMENT BOND HOLDERS.

13. INTERESTING COMMENTARY ON BUDGET WAS PROVIDED TO AMBASSADOR BY CHRETIEN DURING INITIAL CALL ON FEBRUARY

20. CHRETIEN CONTENDED THAT GOVERNMENT WAS FORCED INTO LEGISLATION INCREASING TRANSFER PAYMENTS AND ESTABLISHING INDEXATION OF SOCIAL SECURITY BENEFITS WHEN LIBERAL PARTY FORMED MINORITY GOVERNMENT. CHRETIEN HIMSELF WAS AGAINST MANY OF INDEXATION SCHEMES AND BELIEVED THEY CONTRIBUTED TO INFLATIONARY PRESSURES. CHRETIEN SAID HE IS CONSTANTLY BATTLING WITH HIS CABINET COLLEAGUES

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OVER NEW PROGRAMS (JUST BEFORE MEETING WITH AMBASSADOR HE WAS "ON LOSING END" OF FIGHT OVER C\$8 MILLION

EXPENDITURE) BUT HE WAS STILL CONGRATULATING HIMSELF
ON HIS EFFORTS TO HOLD SPENDING INCREASE DOWN TO 16 PERCENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPENDITURES, BUDGETS, DATA, CENTRAL GOVERNMENT, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976OTTAWA00719
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760068-0032
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760223/aaaaatwy.tel
Line Count: 280
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 13 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 APR 2004 by BoyleJA>; APPROVED <14 APR 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MAIN ESTIMATES ON EXPENDITURES FOR FY 76/77 BEGIN UNCLASSIFIED
TAGS: EFIN, CA, (CHRETEN, JEAN)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006